



STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

PS 2001(7)

25 Sigourney Street
Hartford CT 06106-5032

POLICY STATEMENT

**Purchases of Machinery, Equipment, Tools, Materials, and
Supplies by Commercial Printers and Publishers**

Purpose: In 1997 the Connecticut General Assembly amended the sales and use tax exemptions in Conn. Gen. Stat. §12-412(71) and (72) for purchases of machinery, equipment, tools, materials, and supplies. The exemptions now allow commercial printers, publishers, and prepress reproduction establishments to use such items **predominantly**, as opposed to exclusively, in the production of printed material. This Policy Statement describes the application of the exemptions from sales and use taxes provided in Conn. Gen. Stat. §12-412(71) and (72), as amended.

Effective Date: The amendments to Conn. Gen. Stat. §12-412(71) and (72) were effective for sales to commercial printers, publishers, and establishments engaged in prepress production of printed materials occurring on and after October 1, 1997.

Statutory Authority: Conn. Gen. Stat. §12-412(71) and (72).

Definitions:

1. **Commercial printers** are actively and primarily engaged in the business of printing, as described in Industry Group Nos. 275 through 279 of the *Standard Industrial Classification (SIC) Manual, 1987*, or Industries 323110 through 323122 of the *North American Industry Classification System (NAICS) United States, 1997*, which has replaced the SIC manual. Commercial printers generally perform work on a job or custom basis, but may also sell their product themselves. Establishments primarily engaged in providing photocopying services are not commercial printers. Also, print shops that do not sell their product (such as in-house print shops) are not actively engaged in the business of printing and do not qualify as commercial printers.
2. **Publishers** are primarily engaged in the business of preparing and distributing, whether by sale or otherwise, books, periodicals, newspapers, and other printed materials, including but not limited to items listed in Industry Group Nos. 271 through 274 of the SIC manual, or Industries 511110, 511120, 511130, 511140, 511191, 511199, and 512230 of the NAICS manual. Establishments that are primarily engaged in activities specifically listed elsewhere in the SIC or NAICS manuals do not qualify as publishers. Publishers may have in-house printing facilities or they may use independent contractors to print the material being published.
3. **Primarily** means chiefly (greatest amount of uses among all the uses), and is used to determine whether an establishment is a commercial printer or publisher. For example, if an establishment engages in two different activities, one of which would qualify it as a commercial printer or publisher and the other of which would not, the establishment engages primarily in the activity from which it earns more than 50 percent of its income. If an establishment believes that the criterion of its income does not adequately represent the relative economic importance of each activity it carries on, the Commissioner may allow the establishment to base the determination of its primary activity on the number of employees working at each activity and the wages and salaries of the employees working at each activity.
4. **Predominantly** means more than fifty percent, and is used to determine whether a particular item of tangible personal property qualifies for exemption. For example, if a machine is used for three different functions, one of which would qualify the machine for exemption and the other two of which would not, the machine must be used more than 50 percent of the time in the qualifying function to be eligible for exemption.

5. **Prepress production** includes the production of typesetting, color separation, finished copy with type proofs and artwork or similar content mounted for photomechanical reproduction, or other similar products *to be sold* for use in the production of printed materials.
6. The phrase ***all processes necessary to convert manuscript copy into printed material*** is construed as beginning with entering a composition into a system that will produce printed material. For example, in the case of newspapers, this means that the process begins when a reporter composes a story, whether the composition takes place using a personal computer, a laptop computer, a typewriter, or paper and pencil. Each of these media on which composition takes place is considered “conversion of manuscript copy into printed material,” *as long as* it is used predominantly for that purpose.
7. **Machinery** means the basic machine itself, including all of its component parts and contrivances, such as belts, pulleys, shafts, moving parts, operating structures, and all equipment or devices used or required to control, regulate, or operate the machinery. A “machine” is a device composed of solid, fluid, or electrical parts assembled into a unit for transmitting forces, motion, and energy. Component parts and contrivances sold in the same transaction with the basic machine may be purchased under the exemptions in Conn. Gen. Stat. §12-412(71) and (72), if the component parts and contrivances are directly connected with, or are an integral part of, machinery.

Some examples of qualifying machinery include a photocopier, laser printer, personal computer, laptop computer, word processor, text editing machine, or camera (film or digital) that is used predominantly as part of a commercial printing operation, or to prepare prepress products to be sold to commercial printers or publishers. If the machinery is used predominantly for non-production purposes, such as office administration or at a stage before manuscript copy is ready to be converted into printed material (such as for research preliminary to converting manuscript copy into printed material), it does not qualify for exemption.

Repair, replacement, component, and enhancement parts: The exemptions under Conn. Gen. Stat. §12-412(71) and (72) were intended to extend to such non-manufacturers as publishers the exempt status historically given to commercial printers, and to expand the scope of the exempt process to

include prepress operations. There was no intent to reduce any of the benefits already realized by commercial printers under the manufacturing exemptions.

Repair, replacement, component, and enhancement parts for machinery exempted under Conn. Gen. Stat. §12-412(71) or (72) sold separately from the machinery do not qualify for exemption under these subsections. However, if a part is for machinery that would have been exempt as manufacturing machinery under Conn. Gen. Stat. §12-412(34), it may be purchased exempt under Conn. Gen. Stat. §12-412(34). If a part is for machinery that is exempted solely by virtue of Conn. Gen. Stat. §12-412(71) or (72), which would not have been exempt under Conn. Gen. Stat. §12-412(34), it may be purchased under the partial exemption of Conn. Gen. Stat. §12-412i. (See **Special Notice 93(1.1)**, *The Manufacturing Recovery Act of 1992 Exemption for Purchases of Property Used in Manufacturing, Processing, and Fabricating*.)

In addition, the exemption provided by Conn. Gen. Stat. §12-412(73) may apply to purchases of component parts to be assembled into a machine by commercial printers, but not to those same purchases made by publishers or persons engaged in prepress production because they are not manufacturers. For example, a printer may purchase component parts that it will assemble into a printing press exempt under Conn. Gen. Stat. §12-412(73). However, Conn. Gen. Stat. §12-412(73) is not available to publishers or persons engaged in prepress production because “machinery for use directly in a manufacturing production process,” into which the component parts must be assembled, is machinery as described in Conn. Gen. Stat. §12-412(34), which is limited to manufacturers.

8. **Equipment** means a device separate from machinery but essential to a commercial printing process or to prepress production. Equipment may be “essential” if the commercial printing or prepress production process cannot proceed without that equipment. For example, an electronic storage medium, such as a floppy disk or a writable CD on which drafts of articles or electronic images are stored, or a light table used for layout work and to set out printing jobs, qualifies for exemption as equipment. The fact that equipment is required by law, such as screens or railings required for safety, or by practical necessity, such as ceiling lights or soundproofing panels in a pressroom, does not of itself render equipment essential.

Prewritten (or “canned”) software used on machinery or equipment eligible for exemption under Conn. Gen. Stat. §12-412(71) or (72) is also considered equipment. Therefore, its purchase qualifies for exemption, whether or not the software is purchased in the same transaction with the machinery or equipment on which it is used.

The cost of services rendered to create custom software or to customize software, when the software is purchased with the exempt machinery or equipment on which it is to be used, is part of the “sales price” and “gross receipts” under Conn. Gen. Stat. §12-407(8) and (9). As such, the cost of the software is not considered separately from the purchase price of the machinery or equipment and is included within the exemption. However, because the exemption under Conn. Gen. Stat. §12-412(71) or (72) applies only to tangible personal property and not to services, charges for computer and data processing services rendered in connection with the purchase of custom or customized software in a transaction separate from the purchase of the machinery or equipment on which the software is to be used, or in connection with later purchases of custom or customized software, is subject to tax under Conn. Gen. Stat. §12-407(2)(i)(A). Note that the tax on computer and data processing services is being phased out as follows:

July 1, 2000 through June 30, 2001: 2%

July 1, 2001 through June 30, 2002: 1%

July 1, 2002 and thereafter : 0%

9. **Tools** include hand tools, such as hammers, chisels, wrenches, screwdrivers, saws, and stripping knives. The term also includes tools that are used in the operation of machinery, such as printing plates or blankets, dies or punches, accessory tools that hold or align a piece of work undergoing commercial printing or prepress production or a tool used in the process, and specialized tools used in commercial printing or prepress production of printed material, such as slug cutters, mallets and blocks, type measures, and densitometers.
10. **Materials and supplies** include: (a) items that become an ingredient or component part of printed material, such as ink, paper, glue, and staples; (b) items that become an ingredient or component part of prepress products, such as metal for making type, photographic film used for color separations, and paper and ink used in artwork; (c) items that are consumed or destroyed in the commercial printing process, such as cushion paper or tissue paper used to build up the printing surface of a press, blotting

paper, mounting tape, drying powders, lubricants, chemicals, and solvents; (d) items that are consumed or destroyed in prepress production, such as photographic chemicals, masking paper, and tape; and (e) artwork or similar content, such as photographs or graphic designs mounted for photomechanical reproduction.

Artwork and photographs: If a printer, publisher, or person engaged in prepress production purchases artwork or photographs, the tax treatment of the purchase depends on the true object of the transaction. If the true object is to obtain outright ownership of the artwork or photograph, the transaction is for the purchase of tangible personal property and may be exempt under Conn. Gen. Stat. §12-412(71) or (72).

If the true object is not to obtain outright ownership of the artwork or photograph, but to obtain only certain intangible incidents of ownership to the artwork or photograph, such as the right to reproduce, change, or market the artwork or photograph, the transaction is a sale of services and the transfer of intangible personal property. In such case, if the item being purchased is artwork, neither the sale of the services nor the charge for the intangible personal property is taxable. If the item being purchased is a photograph, the services are photographic studio services under Conn. Gen. Stat. §12-407(20)(i)(F), and are taxable because the exemptions of Conn. Gen. Stat. §12-412(71) and (72) do not extend to services. The charge for the transfer of the intangible incidents of ownership may be only excluded from tax to the extent that it is separately stated from the charge for the photographic studio services on the customer’s bill and the service provider can demonstrate to the Commissioner’s satisfaction that the charge is reasonable. If, however, the charges for the sale of the intangible incidents of ownership are not separately stated, the entire charge is taxable as the sale of photographic studio services.

Items Purchased by Commercial Printers and Publishers: Commercial printers and publishers may purchase machinery, equipment, tools, materials, and supplies that they will use predominantly in the production of printed material under the exemption provided in Conn. Gen. Stat. §12-412(71). The **production of printed material** includes all processes necessary to convert manuscript copy into printed material, including but not limited to layout, color separation, and typesetting. The **production of printed material** also includes creating graphic designs.

The exemption for items used or consumed in the production of printed material applies to items used or consumed in the preproduction stage. Therefore, items purchased by a commercial printer or publisher to be used or consumed predominantly in activities such as layout, color separation, typesetting, and plate making qualify for the exemption. Activities such as the production of typesetting, color separation, finished copy with type proofs and artwork or similar content mounted for photomechanical reproduction, or other similar products to be sold for use in the production of printed materials, are included in preproduction and so the items used predominantly in such activities are exempt under Conn. Gen. Stat. §12-412(71). The production of printed material continues through the press or printing stage, and ends when the bindery process, which includes such activities as drilling and punching, cutting and trimming, binding, coating, laminating, and packaging individual copies or sets, is complete. Activities such as sorting, handling, casing, loading, addressing, or delivering printed materials to customers or consumers occur after the completion of the final stage in the production of printed material. Items used or consumed predominantly in such activities do not qualify for exemption under Conn. Gen. Stat. §12-412(71). However, the items may qualify for partial exemption under Conn. Gen. Stat. §12-412i.

Items Used or Consumed in Prepress Production: Machinery, equipment, tools, materials, and supplies used predominantly in the production of typesetting, color separation, finished copy with type proofs and artwork or similar content mounted for photomechanical reproduction, or other similar products to be sold for use in the production of printed materials, may be purchased exempt by a person engaged in prepress production under Conn. Gen. Stat. §12-412(72).

Certificate of Exemption: The purchaser of machinery, equipment, tools, materials or supplies must present **CERT-120**, *Certificate for Machinery, Equipment, Tools, Materials, and Supplies Used in the Production of Printed Material or in Prepress Production*, to the seller to claim exemption on the purchase under Conn. Gen. Stat. §12-412(71) or (72). Acceptance of this certificate in good faith by the seller from a purchaser engaged in commercial printing,

publishing, or prepress production relieves the seller of the burden of proving that the property purchased is subject to exemption under Conn. Gen. Stat. §12-412(71) or (72). If the purchaser makes any use of the property other than the use stated on the certificate, the property becomes subject to tax when used, based on the full purchase price. The purchaser must self-assess the use tax due and report it on **Form OS-114**, *Sales and Use Tax Return*, and remit payment of the use tax with that return.

In addition, the purchaser must be prepared to establish to the satisfaction of the Commissioner that any items purchased exempt under Conn. Gen. Stat. §12-412(71) or (72) are used predominantly in qualifying activities.

Effect on Other Documents: This Policy Statement modifies and supersedes **Policy Statement 95(4)**, *Purchases of Machinery, Equipment, Tools, Materials, and Supplies by Commercial Printers and Publishers*, which may not be relied upon on or after the date of issuance of this Policy Statement.

Effect of This Document: A Policy Statement is a document that explains in depth a current DRS position, policy or practice affecting the tax liability of taxpayers.

For Further Information: Please call DRS during business hours, 8:00 a.m. to 5:00 p.m., Monday through Friday:

- **1-800-382-9463** (toll-free within Connecticut), or
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries 24 hours a day by calling 860-297-4911.

Forms and Publications: Forms and publications are available all day, seven days a week:

- **Internet:** Preview and download forms and publications from the DRS Web site: **www.drs.state.ct.us**
 - **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu.
 - **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (toll-free within Connecticut) and select **Option 2** from a touch-tone phone.
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